

**Kansas Corporation Commission**

**Commission Meeting**

**December 21, 2017**

10:00 a.m. 1<sup>st</sup> floor hearing room

KCC Offices, 1500 Arrowhead, Topeka, Kansas

**MINUTES**

The Commission convened the regularly scheduled open meeting of the Commission at 10:00 a.m. on December 21, 2017 in the 1<sup>st</sup> floor hearing room of the Kansas Corporation Commission, 1500 Arrowhead, Topeka, Kansas.

Present: Chairman Apple, Commissioner Albrecht and Commissioner Emler. The following were considered by the Commission:

1. **Consent Agenda:** Commissioner Albrecht moved for approval of the Items on the Consent Agenda dated December 21, 2017 containing pages one through three and are attached to these Minutes. Commissioner Emler seconded the motion.

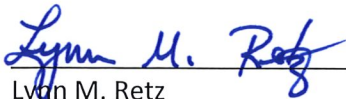
The motion was approved.

2. **Discussion/Presentation Item(s):**

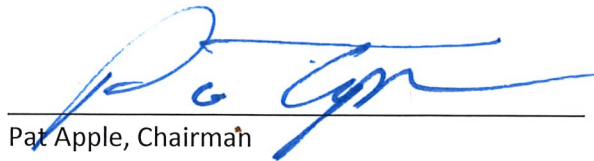
**Conservation Fee Fund:** Ryan Hoffman, Conservation Division Director provided information on the history and status of the Conservation Fee Fund. He introduced correspondence from KIOGA and EKOGA regarding the Conservation Fee Fund and are attached to these minutes.

There being no further matters before the Commission, Commissioner Emler moved for adjournment of the Commission meeting. Commissioner Albrecht seconded the motion. The motion was approved. The Commission adjourned the December 21, 2017 Commission Meeting at 10:15 a.m.

Respectfully submitted,



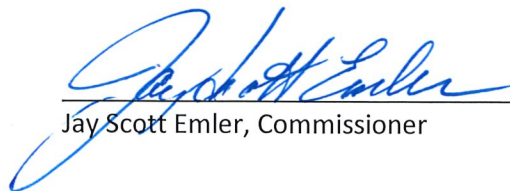
Lynn M. Retz  
Secretary to the Commission



Pat Apple, Chairman



Shari Feist Albrecht, Commissioner



Jay Scott Emler, Commissioner



## ITEMS OF Consent Agenda

Approval Date: Thursday, December 21, 2017

NOTICE TO THE PUBLIC: There will be no separate discussion of Consent Agenda items as they are considered to be routine by the Kansas Corporation Commission. Unless removed from the website's Consent Agenda, the orders appearing on the Consent Agenda will become the Order of the full Commission at the Commission's regularly scheduled Business Meeting. If Commission staff or a Commissioner requests an item be removed from the Consent Agenda, the affected item may be considered separately or placed on the earliest possible Business Meeting agenda for discussion.

### Consent Agenda

ITEM NO.	DESCRIPTION	DOCKET NUMBER	REMOVED
1	In the Matter of South Central Telephone Association Filing Tariff Revision to Reformat the Existing Tariffs to Make it More Consistent with Industry Practice and Standards. <i>Order Approving Tariff Revisions</i>	18-SCNT-222-TAR	
2	In the Matter of the Application of Mid-Kansas Electric Company, LLC for Approval of the City of Glen Elder Firm Energy, Capacity, and Load Following Agreement. <i>Order Approving Wholesale Electric Contract (Redacted)</i>	17-MKEE-497-CON	
3	In the Matter of the Application of Mid-Kansas Electric Company, LLC for Approval of the City of Cawker City Firm Energy, Capacity, and Load Following Agreement. <i>Order Approving Wholesale Electric Contract (Redacted)</i>	17-MKEE-498-CON	
4	In the Matter of the Petition of The Empire District Electric Company for Approval of Its Customer Savings Plan <i>Order Granting Amended Motion to Extend 180-Day Deadline, Setting Procedural Schedule, and Designating Prehearing Officer</i>	18-EPDE-184-PRE	

## Consent Agenda

ITEM NO.	DESCRIPTION	DOCKET NUMBER	REMOVED
5	In the Matter of the Application of Southern Pioneer Electric Company Seeking Waiver of Minimum Standards for Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards and the Approval of Revisions to Their Schedule of Fees Related to the Assessment of Credit Card Convenience Fees <b><i>Order Granting the Citizens' Utility Ratepayer Board's Petition to Intervene, Protective Order and Discovery Order</i></b>	18-SPEE-241-TAR	
6	In the Matter of the Application of Southern Pioneer Electric Company Seeking Waiver of Minimum Standards for Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards and the Approval of Revisions to Their Schedule of Fees Related to the Assessment of Credit Card Convenience Fees <b><i>Suspension Order</i></b>	18-SPEE-241-TAR	
7	In the Matter of the Application of Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy Seeking Commission Approval for Ad Valorem Tax Surcharge Rider Tariff Adjustments for 2018. <b><i>Order Granting CURB's Petition to Intervene</i></b>	18-BHCG-249-TAR	
8	In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc. to Amend Certificate of Convenience and Necessity to Transact the Business of a Natural Gas Public Utility Within the County of Morton, Kansas and the Vicinity Thereof. <b><i>Order Granting Motion to Withdraw Application and Closing Docket</i></b>	18-KGSG-056-COC	
9	In the Matter of an Investigation into Natural Gas Pipeline Safety Rules and Regulations. <b><i>Order Opening Docket; Authorizing Submission of Proposed Amendments of Pipeline-Related Regulations</i></b>	18-GIMP-254-GIP	
10	In the Matter of the Investigation of Diggs Transport LLC of Silver Lake, Kansas, Regarding the Violation(s) of the Motor Carrier Safety Statutes, Rules and Regulations and the Commission's Authority to Impose Penalties, Sanctions and/or the Revocation of Motor Carrier Authority. <b><i>Order Suspending Intrastate Motor Carrier Operations</i></b>	18-TRAM-150-PEN	
11	In the matter of an Order to Show Cause issued to Midwest Energy, a General Partnership ("Operator") regarding responsibility under K.S.A. 55-179 for unplugged wells on an expired license. <b><i>Order Closing Docket</i></b>	18-CONS-3102-CSHO	
12	In the matter of the failure of Butler Bros., Inc. ("Operator") to comply with K.A.R. 82-3-120. <b><i>Order Rescinding Penalty Order and Closing Docket</i></b>	18-CONS-3157-CPEN	

The above-captioned matter(s) were approved by the Commission, unless noted as removed.

For the Commission :

  
Pat Apple, Chairman

  
Shari Feist Albrecht, Commissioner

  
Jay Scott Emler, Commissioner

Attest:

  
Lynn M. Retz  
Secretary to the Commission



December 20, 2017

Mr. Ryan Hoffman  
Director, Conservation Division  
Kansas Corporation Commission  
266 N. Main Suite 220  
Wichita, KS 67202-1513

Dear Ryan:

As KIOGA and EKOGA representatives on the Oil and Gas Advisory Committee, we are writing in response to your notice to producers and operators identifying a need to increase funding for the Conservation Division of the KCC. We commend you and your staff for being forthright in providing us with your economic projections and your operating expenses. We realize that the Conservation Division is adjusting their operating expenses in light of the decline in revenue from the Conservation Fee Fund. We also recognize the need to raise Conservation Division funding to avoid potential funding shortfalls in FY 2019 and FY 2020. However, the increase in fees by approximately 60% on natural gas and oil is considered to be an extreme measure.

We have reviewed the Conservation Division staff budgetary assumptions and projections as well as several analogous projections from the industry for the proposed oil and gas mill levy changes. We appreciate your consideration of the assumptions and projections offered to you by the industry which considers the statewide decline in oil and gas production and its effect on the mill levies. We have also reviewed the handouts and e-mails sent to the Advisory Committee at its special meeting on November 1, 2017. After considering the information received from your staff and the industry's projections for oil and gas prices and anticipated general activity levels for the industry in 2018 thru 2020, attached you will find the industry's mill levy increase proposal and the following is our justification and reasoning.

In essence, the industry's justification and reasoning for our proposed mill levy increase is predicated on four major factors:

1. The price for oil seems to have currently stabilized and appears to be gradually increasing. The projected price for natural gas is more difficult to determine, however most analysts seem to project a slight increase in gas prices over the next three years. With higher prices, there will be increased activity that should stabilize production declines well below the declines originally proposed by the KCC. Our proposal contains a 2% decline projection for oil production and a 4% decline projection for gas production.
2. Other Income (licenses, renewal etc.) collected by the Conservation Division has actually increased from 2016 to 2017. However, we utilized a 2% decline



notwithstanding the possibility that this income could increase if higher prices result in increased near term activity.

3. The Conservation Division staff and industry both believe that the industry going forward will likely shrink in size regardless of oil and gas price trends. As a result, the probability exists that fewer wells will be drilled and that overall industry activity will be reduced. These probabilities should be anticipated in future budgets for the Conservation Division. Given this shared concern, it is most important in future years that the industry remains intimately involved in assisting the Conservation Division in its budgetary process.
4. Per the Conservation Division's assumptions in the handout provided at the special advisory meeting, the Conservation Division expenditures remain flat from FY2017 thru FY2020. Accordingly, the industry's revenue models have not factored in any expenditure declines for FY2019 and FY2020 for the Conservation Division. However, the industry believes that the Conservation Division should continue to find additional spending cuts to aid in reaching the necessary forecasted yearend balances.
5. Historically, natural gas has a steeper decline than oil. Also, natural gas prices vary significantly across the state, greater than oil prices. Prices can vary as much as \$1.00 per MCF due to Btu content and pipeline economics. Therefore, such a large increase in the fee fund on natural gas could create a large penalty for small volume wells with low Btu contents and could be the tipping point for profitability for some gas wells. In addition, severance tax on natural gas is determined on gross receipts.

The industry utilizes a working group that consults annually with the Department of Revenue to provide its insights regarding the future price trends for oil and gas for ad valorem taxation purposes. We believe an analogous committee would be helpful to provide for industry input into annual budgetary issues effecting the Conservation Division. A Finance Subcommittee of the Oil and Gas Advisory Committee could be a proper format for such industry input.

We have appreciated this opportunity to review and comment on the Conservation Division's budgetary proposals -- most prominently including its proposals to raise fee fund revenues for FY2019 and FY2020. Low oil and gas prices for the past few years have adversely impacted the industry. Salary cuts and layoffs have been the norm for Kansas operators as they have struggled to reduce expenditures commensurate with their reduced revenues. In future years it will be important for the Conservation Division to continually review their own operations and in a similar fashion find ways to streamline their efforts and reduce expenditures. We appreciate the opportunity to assist the Conservation Division in attaining that goal.

Sincerely,

  
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Jon M. Callen, KIOGA representative  
\_\_\_\_\_  
David P. Bleakley, EKOGA representative

## INDUSTRY RESPONSE

12/20/2017

4% gas decline  
2% oil decline  
2% other income decline

Gas		Oil	
New Mill Levy	Mill increase No. / Pct.	New Mill Levy	Mill increase No. / Pct.
17.4	4.5/35%	123	32/35%

## INDUSTRY PROJECTED REVENUE

FY2017 Actuals (7/1/16-6/30/17)	FY2018 Estimate (7/1/17-6/30/18)	FY2019 Estimate (7/1/18-6/30/19)	FY2020 Estimate (7/1/19-6/30/20)
Assumes 50% of 1st yr & 100% from 2nd	Assume 4% gas / 2% oil Decline	Assume 4% gas / 2% oil Decline	Assume 4% gas / 2% oil Decline
233,414,040	224,077,478	215,114,379	206,509,804
37,054,110	36,313,028	35,586,767	34,875,032
	<b>Current Mill Levy</b>	<b>New Mill Levy</b>	<b>New Mill Levy</b>
	<b>12.9 Gas / 91 Oil</b>	<b>17.4 Gas / 122 Oil</b>	<b>17.4 Gas / 122 Oil</b>
\$ 3,011,041	\$ 2,890,599	\$ 3,742,990	\$ 3,593,271
\$ 3,371,924	\$ 3,304,486	\$ 4,377,172	\$ 4,289,629
\$ 6,382,965	\$ 6,195,085	\$ 8,120,163	\$ 7,882,900
Other Income	\$ 525,000	\$ 514,500	\$ 504,210
<b>TOTAL</b>	<b>\$ 6,720,085</b>	<b>\$ 8,634,663</b>	<b>\$ 8,387,110</b>